

SANDAG: HOW MUCH GROWTH IS SUSTAINABLE?

SUMMARY

The San Diego Region has been described as an island surrounded by the Pacific Ocean, Mexico, mountains and Camp Pendleton. However, these physical boundaries may not be as important as the infrastructure constraints facing growth in this region. The challenges today include water, power, airports, transportation, landfills, sufficient medical care, schools, police, and fire protection. In addition, the largest city in the county intends to borrow money for day-to-day infrastructure maintenance while many believe it is on the verge of bankruptcy. As we grow and accommodate a million more residents into our region, we create more demand on the fragile infrastructure. We are not catching up, only creating additional challenges in providing for infrastructure and maintenance.

The Board of Directors of the San Diego Association of Governments (SANDAG) is comprised of representatives of the 18 cities and county government. They provide a necessary forum for regional decision-making. The role of SANDAG is to develop strategic plans, build consensus, obtain and allocate funds and provide information on a wide range of topics related to the region's quality of life. Chief among SANDAG's responsibilities are adopting and implementing a Regional Comprehensive Plan (RCP) and a Regional Transportation Plan (RTP). The RCP, which was adopted in 2004, is the strategic planning framework for the region. SANDAG has provided a very good forum and the region has greatly benefited from the studies and open discussions on regional problems. SANDAG has forecasted that the region will grow by one million people before 2020. SANDAG's official position is that it does not promote growth and maintains that it is impossible to slow or control growth in an area of our size.

The 2007/2008 San Diego County Grand Jury found no easy infrastructure assessment or scorecard, by city or county district, or combined benchmarks used by SANDAG where it does a comparison of the regional infrastructure carrying capacity and projected growth. It has just begun to consider a Quality of Life Study, which, we anticipate will look at the impact of growth on our quality of life. SANDAG's position is they neither discourage nor encourage growth. The question then becomes: Will we continue to add millions of people to our area until we look like Los Angeles or New York City?

PURPOSE

1. To point out that rapid growth has surpassed many areas of the infrastructure carrying capacity of the region. While SANDAG is a great asset to the region, it does not continue obtaining opinion surveys of what the citizens of the region think of the growing infrastructure deficit that growth has caused. Nor does it answer the question: Is there an optimal population for our region within the constraints of water, power, police, schools and other infrastructure necessities?

2. To examine the funding for regional infrastructure maintenance. In many cases the cities of San Diego County have borrowed money or issued bonds counting on future growth and property taxes to pay today's infrastructure maintenance debts. The mayors and council members of these cities make up most of the SANDAG Board and make the final decisions of SANDAG. These decisions box us in by creating a cycle that works only if more growth continues forever (no light at the end of this tunnel). Plans need to be realistic reflecting managed growth and respecting existing infrastructure constraints rather than borrowing on future growth.
3. To examine the level to which the SANDAG Board reflects the concerns of the regional citizens they represent. Presently, SANDAG Board Members are mostly mayors, city council members or other regional representatives. The decisions made by the board are very important to the region. Those interviewed admit the constituents that elected them, seldom ask how they voted for an issue at SANDAG. Few even realize they sit on the SANDAG Board.
4. To provide findings of a limited scope audit of SANDAG performed by the San Diego County Auditor and Controller Office at the request of the Grand Jury.

PROCEDURES

Members of the Grand Jury:

- Viewed a presentation by the SANDAG Executive Director and staff.
- Attended over 30 of the SANDAG working group and board meetings.
- Reviewed many SANDAG published reports.
- Interviewed current and former board members and employees of SANDAG.
- Requested and reviewed an audit of SANDAG by the County Chief of Audits. (Attached)

DISCUSSION 1 INFRASTRUCTURE CAPACITY

In recent years this region has experienced unprecedented growth from both internal and external sources. Like many regions we have a sizeable undocumented population that contributes to and exacerbates our infrastructure growth. The local Governments escalated this growth in a "build it and they will come" philosophy. It was assumed that government would work out the growing infrastructure constraints or carrying capacity later. With our limited regional constraints, we may not have that luxury. It is time to take a closer look and manage our growth better. If we continue to invite growth and increase the infrastructure deficit, we will continue to lower our quality of life. As Edward Abbey stated: "Growth for the sake of growth is the ideology of the cancer cell."

Examples of how infrastructure growth has slowed are: the State Route 76 expansion and the Sprinter train. The SR 76 project will change a 2-lane road into a 4-lane road

between I-5 and I-15. A western section was completed several years ago and now could be widened to 6 lanes. The remaining 10 miles of the conversion from 2 to 4 lanes was included during the 1987 Transnet sales tax plan. While the projected completion plan for this dangerous stretch of road is 2014, because of money constraints and priorities, there is an extended plan being considered within SANDAG, which would move completion to 2020. That would mean an improvement to a 10-mile stretch of road will have taken 33 years. Even if the present completion plans of 2014 holds, it will still take 27 years. In the meantime, accidents and fatalities will continue on the old route. The Sprinter train also goes between I- 15 and I-5 that took 20 years from planning to completion. Not only has the schedule slipped many times over the years, but the cost estimate has gone from a vision of \$20 mil in 1986 to \$352 mil in 2003 and \$477 million recently.

If we know the carrying capacity or peak population density of our region, we can manage development growth. This will allow the supporting infrastructure to grow in unison with development and not behind it. This would include development of employment centers (industrial parks, universities and large office buildings) and large housing tracts. Infrastructure carrying capacity is a measure of what an area can support, including the knowledge of whether the present population and/or any new development has or will have utilities, water, hospital beds, police, schools, fire protection, transportation, etc they require.

It should be noted that while SANDAG does not have direct control or authority of land use within the cities and county, SANDAG board members do. But SANDAG should have a role in informing the citizens of the region by letting them know with an **easily** understood assessment or scorecard if the total infrastructure by district or city has the ability (carrying capacity) to support both existing and pending growth. The scorecard would go a long way in gaining confidence from the citizens of the region for SANDAG.

Recently the state passed mandates under AB-32, the California Global Warming Solutions Act of 2006 that will reduce greenhouse gas (GHG) emissions to 1990 levels by promoting mass transit and providing for more homes closer to work locations. This will have strong positive effects on our growth patterns, environment and infrastructure. SANDAG should take credit for embracing these mandates and include the mandated requirements in existing plans. To be more responsive, SANDAG should announce that it is going to promote GHG reduction, manage our growth, pay attention to the existing quality of life as well as the carrying capacity of what our current infrastructure can support. Presenting an image of a slow, well-managed region, living and growing within its means, would make anyone proud to live here.

FACTS / FINDINGS

Fact: The SANDAG projects of Highway 76 and the Sprinter train are examples that contribute to our present infrastructure deficit.

Finding #01: While construction delays in highway 76 continued, many housing developments using this highway were built without the transportation infrastructure to support them.

Finding #02: When the time frame delays and cost increase of the Sprinter are applied to the existing and future SANDAG projects, the infrastructure deficit will increase dramatically.

Fact: SANDAG has not published a combined infrastructure assessment, or considered one in its plans to be provided to the public for the region. The figures for each element of infrastructure can be found in several different reports, but not in a single overall assessment format.

Finding #03: An easy to read scorecard by city or supervisorial district for unincorporated areas showing the population and the infrastructure element figures should be developed. These assessments will show infrastructure figures such as public safety or hospital beds, so everyone can tell if development (both employment centers and housing tracks) can be supported.

Fact: SANDAG is often criticized in the press for project delays and not building more highway lanes or roads, as many citizens want less spent on public transportation. SANDAG is caught in the middle between what the state mandates (more mass transit) and what the public wants (more lanes).

Finding #04: It may not be possible to pave our way out of congestion; other cities have tried it for years with little success. By approving managed growth first in order to allow the mass transportation infrastructure to catch up, SANDAG will be required to concentrate on the new mandates from the state, and look closely at water and power needs.

Fact: Cutbacks on Quality of Life are being made due to large increases in regional population. Recently one local city cancelled an annual holiday fair that had gone on for many years and another city stated that the jazz lawn concerts are getting too large and need to be reduced. A newspaper article tells of large gatherings at regional parks by charities and others that are having a negative impact on the park's neighborhood. Additionally, beach goers and surfers are complaining about having to pay to park at the beach.

Finding #05: The facts above are examples of how growth without enough infrastructures in place will affect the quality of life.

DISCUSSION 2 BOXED IN

Most citizens agree that new growth should pay for most if not all of new development infrastructure needed. Good government budget practices allow borrowing for large capital improvements, but not to pay for day-to-day maintenance. Much of our maintenance on existing infrastructure has been delayed in favor of new development infrastructure, which limits funding to pay for present problems. So we box ourselves in by borrowing from the future. Then the only choice is to keep growing to pay for the required maintenance of today. In the past, SANDAG has been fortunate enough to receive grants and allocations from both state and federal government as bailouts. However, both state and federal governments are presently cutting many areas.

Because of the problems in our infrastructure deficit, our ability to provide solutions to other problems such as a larger regional airport, providing needed school buildings and hospitals, increasing our wastewater treatment facilities and finding the water we will need tomorrow at an affordable price is decreased.

FACTS/FINDINGS

Fact: At the end of 2007 the board of SANDAG considered two choices with respect to the Regional Transportation Plan Funding: a Revenue Constrained Scenario of \$41 billion or a Reasonably Expected Revenue Scenario of \$57 billion.

Finding #06: The region in the past has been able to attract funds and grants from many different sources. If these additional funds are not found, it appears that a \$16 billion adjustment is going to be needed.

Fact: Acceptance of competitive fixed prices is prevalent by SANDAG and most government agencies in the region. Competitive fixed prices are accepted as the best price obtainable, if they are close to the budgeted amount. Regional road prices and cost elements are not compared to the prices paid by our neighboring counties.

Finding #07: Prices for construction have recently come down from past prices and SANDAG believes it is due to the potential for a recession. However, the costs of cement, rock and steel have not come down. It appears that no one is looking into the question of whether we paid too much in the recent past or should today's prices be even less than quoted.

Fact: Currently there are three mass transit systems in place currently in the county: Metropolitan Transit System, North County Transit District and the Metro Liner.

Finding #08: If the current projected growth estimates are allowed; a far-reaching mass transit system to all corners of the county is needed. Combining rail systems and expanding train lines would be a good start.

DISCUSSION 3 SANDAG BOARD

While they are all elected officials, SANDAG Board members are not elected to that position. The board is made up of two members from the Board of Supervisors, two from the City of San Diego and one each from the other seventeen cities. While the members mostly set aside rivalries between cities and try to be responsible, they are limited in two areas: 1) for the most part they individually have not had any professional training in planning, and 2) they have to consider the constituents who elected them first and the needs of the region second.

Since the board members were elected to govern for only a slice of the entire region, when the region needs something like an additional rail line, a power plant or an aggregate mine, the answer is too often “Not in My Back Yard.” The region, as a whole, has to suffer and pay extra for these political decisions. The most recent TransNet sales tax extension was estimated to fund much more than it probably will cover. Because sales tax revenues have recently declined, the SANDAG board is searching for a new income base to support present and future projects.

FACTS/FINDINGS

Fact: SANDAG has started a recent study on Quality of Life (QofL) issues, which includes beach sand replenishment, quality of water, mass transit and wastewater run off.

Finding #09: These QofL issues have long been with us and have been addressed by the area cities and county. To look at them regionally will be a new challenge for the board members.

Fact: Many of the cities use terms of “Build Out” and “Open Space”, while a consistent definition is hard to find. We see statements in the press from elected officials using these terms and they sound something like growth will stop at “build out” and “open space” is to be left natural. One city classifies I-5 as open space.

Finding #10: SANDAG should provide better definitions of these terms for the public to understand.

DISCUSSION 4 COUNTY AUDIT

We requested and received a limited-scope audit report from the San Diego County Auditor & Comptroller Office. The audit revealed that some internal controls need to be strengthened, tracking procedures should be refined, prior audit findings are not tracked and made a permanent record, and the segregation of functions need to be improved. The facts and findings below are also addressed and expanded in the attached Audit.

Fact: SANDAG’s financial system is owned and administered by Metropolitan Transit System (MTS) without an up to date agreement outlining the use of this system.

Finding #11: Since MTS is a recipient of grants from SANDAG, there is a potential conflict of interest for MTS to administer the financial system.

Fact: Many different excel spreadsheets are used to track grants and prepare monthly reports back to the grantor. Input to these spreadsheets is not automated to transfer data from expenditure systems.

Finding #12: With the many separate spreadsheets needed for the various grants, the reliance factor decreases. SANDAG was not able to ensure that access lists to these reporting systems are updated as needed to reflect the current user environment, or that these lists are reviewed periodically.

Fact: Several periodic audits are both required and performed on the financial records of SANDAG. An ongoing tracking system for the various findings has not been established.

Finding #13: When the auditor asked for the findings and recommendations for the past three years, SANDAG cited “they had no findings except one which was resolved.” The auditor later discovered findings from audits and reviews still in process of resolution.

Fact: The duties of receiving, processing and depositing checks are not adequately segregated to ensure proper safeguarding.

Finding #14: A sole mail clerk opens and distributes all the incoming mail for SANDAG over four floors daily. This includes incoming checks. The auditor found that unendorsed checks could be left unattended in the mail clerk’s cubicle.

RECOMMENDATIONS

The 2007/2008 San Diego County Grand Jury recommends that the San Diego Association of Governments Board of Directors:

08-64: Establish an assessment scorecard by county district or city that outlines the infrastructure carrying capacity. This will include needed water, waste water treatment, police, fire protection, hospital care, environmental concerns, mass transit, existing roads, energy supplies and anything else supplied by the cities and county government. Using this scorecard each district and its citizens will know the required infrastructure that is available to support additional growth.

08-65: Propose a realistic budgeting process that does not rely on borrowing against growth to pay for the deficit existing in our infrastructure.

08-66: Explore alternatives to having area Mayors and Supervisors make the board decisions. With the State mandates becoming more restrictive, regional decisions will need to be voted on that support the entire region and not just a city or part of the county.

- 08-67:** To look at the cost elements of the new lower priced contracts, compare the cost elements to the elements of past contracts and contracts of neighboring counties. Also these new cost elements should be used in settling any claims on existing contracts.
- 08-68:** In your reply to the San Diego County Audit & Controllers audit findings, please provide a copy to the Grand Jury.

COMMENDATION

In our observance of the many meetings and reports, the staff appeared to be very professional and helpful. We feel SANDAG provides a very necessary service to the region and thank them for their service. SANDAG also should be commended on a very well organized web site: www.sandag.org

REQUIREMENTS AND INSTRUCTIONS

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be made *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each grand jury finding, the responding person or entity shall indicate one of the following:
 - (1) The respondent agrees with the finding
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.
- (b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:
 - (1) The recommendation has been implemented, with a summary regarding the implemented action.
 - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
 - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or

department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

(c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

<u>Responding Agency</u>	<u>Recommendations</u>	<u>Date</u>
San Diego Association of Governments	08-64 through 08-68	8/19/08

ANNEX A
REPORT FROM SAN DIEGO COUNTY CHIEF OF AUDITS



**Final
Report**

County of San Diego, California

Auditor and Controller

**Grand Jury Audit of the
San Diego Association of Governments**

Office of **A**udits & **A**dvisory **S**ervices

**March 2008
Report No. A08-024**

INTRODUCTION AND BACKGROUND

The San Diego Association of Governments (SANDAG) serves as the Metropolitan Planning Organization (MPO)¹ for the San Diego County region. In 2003, California Senate Bill 1703, as amended by Assembly Bill 361, called for the consolidation of transit planning, programming, project implementation, and construction from the Metropolitan Transit Development Board (MTDB)² and the North County Transit District (NCTD) into SANDAG. SANDAG Board of Director voting is based on both membership and the population of each jurisdiction among the San Diego region's 18 cities and county government. Additionally, representatives from other key regional transportation stakeholders sit on the Board as non-voting members.³ SANDAG employs a full-time staff to assist and guide the Board of Directors in its deliberative and decision-making process. In fiscal year 2008, SANDAG is operating on a total budget of \$359.3 million, of which, over \$302.7 million is allocated to regional transportation planning and implementation efforts.

The San Diego County Regional Transportation Commission (Commission) is a blended component unit of SANDAG. The Commission is responsible for the implementation and administration of transportation improvement programs funded by the San Diego countywide ½ percent sales tax. This tax became effective on April 1, 1988 as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program. The sales tax funds are used for highway, public transit, and local streets and road improvements. This program is now known as TransNet. The Commission is authorized to allocate the revenues as per the terms of ballot measure Proposition A and issue limited tax bonds payable from the sales tax receipts, the proceeds of which can be used to finance approved highway, transit, and local street and road projects. SANDAG's Board of Directors serves as the Commission and uses SANDAG staff to assist in administration. In November 2004, the voters of San Diego County extended the ½ cent sales tax another 40 years to 2048. The extension of TransNet allowed SANDAG to create the Early Action Program which includes new transportation improvement projects and will complete projects originally scheduled for the original TransNet program which were not completed because of increased cost.⁴

As a direct result of the Early Action Program, the Independent Taxpayer Oversight Committee (ITOC) was created and implemented, before the July 1, 2008 effective date, to oversee the TransNet Early Action Program activity which is being funded with future TransNet funds through bonding. The ITOC will have added responsibility of coordinating independent audits to analyze how TransNet dollars are being spent, to conduct performance reviews to determine how well the projects being implemented are meeting the objective of reducing traffic congestion, and to provide recommendations on how to improve the TransNet program's

¹ Metropolitan Planning Organization: A federally required planning body responsible for the transportation planning and project selection in its region; the governor designates an MPO in every urbanized area with a population of over 50,000 people. SANDAG is the San Diego region's MPO.

² MTDB was renamed Metropolitan Transit System (MTS) in 2005.

³ The California Department of Transportation (Caltrans), the U.S. Department of Defense, the San Diego Unified Port District, Metropolitan Transit System, North County Transit District, San Diego County Water Authority, Imperial County and Tijuana/Baja California Norte are non-voting advisory members of SANDAG.

⁴ The three projects not finished were: the eastern end of Highway 76 linking to I-15 in the North County; the last two miles of Highway 52 connecting to Highway 67 in the East County; and the trolley extension to UCSD.

performance over time. ITOC members are chosen by the ITOC Selection Committee, which consist of a panel of city mayors and county supervisors.

AUDIT SCOPE AND LIMITATIONS

At the request of the Grand Jury, the Office of Audits & Advisory Services (OAAS) conducted a limited scope audit of the San Diego Association of Governments (SANDAG). The objective of the audit was to assess whether internal controls over the grant program and TransNet program administration are properly designed and implemented. The Grand Jury also requested that OAAS research and report when the last outside audit of SANDAG was conducted, determine if there were findings, and if so, verify that any recommendations were complied with. A trend analysis of SANDAG financial statements was also created for the Grand Jury's review, see Appendix I.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

METHODOLOGY

OAAS implemented a multi-faceted methodology that included the following:

- Interview of key SANDAG personnel;
- Review and walkthrough of processes and financial reports; and
- Analysis of available data related to the stated objectives

AUDIT RESULTS

In our opinion, internal controls over grant program and TransNet program administration provide reasonable assurance that the administration processes are operating as designed by SANDAG management.

FINDINGS

Although grant program and TransNet program internal controls were regarded as sufficient, OAAS found opportunities for improvement within SANDAG grant program and TransNet program administration which would benefit from the strengthening of internal controls.

Finding I: SANDAG's Financial System is Owned and Administered by MTS

Personnel interviewed indicated that the SANDAG Enterprise Resource Planning (ERP)⁵ software solution, Integrated Financial and Administrative Solution (IFAS), is installed in a

⁵ A process by which an organization manages and integrates the important parts of its business. An ERP management information system integrates areas such as planning, purchasing, inventory, sales, marketing, finance, human resources, etc. ERP is most frequently used in the context of software.

server physically located at another organization. Additionally, a formal agreement between the two entities, SANDAG and MTS, outlining the joint use of IFAS is not currently in effect.

Consolidation between certain functions of SANDAG, MTDB and NCTD, as a direct result of California Senate Bill 1703, created an environment where resources were being shifted and centralized from amongst the three organizations into SANDAG. As responsibilities and personnel were being consolidated under SANDAG, IFAS was identified as the ERP system for use. At the time, IFAS was utilized solely by MTDB. The cost of a new instance of IFAS physically located at SANDAG was deemed too expensive and an ineffective use of funds by SANDAG management. As a way of reducing costs, it was agreed that SANDAG's IFAS production and test instances would reside on the same server where MTS' IFAS production and test instances reside, which is physically located in MTS facilities. Costs related to IFAS are split between MTS and SANDAG. A formal Memorandum of Understanding (MOU) was discussed between the two organizations but never developed.

Due to the arrangement, SANDAG does not possess physical or logical control of their ERP system. Additionally, since MTS is also a grantee of SANDAG there is a potential conflict of interest for them to host the ERP. Furthermore, responsibilities and liabilities are not clearly outlined in a legal contract, leaving the joint use agreement as only a mutual understanding between the two organizations.

Finding II: Finance Software Control

Excel spreadsheets are used to track actual grant program and TransNet program expenditures. Progress reporting is done in this manner because IFAS is a project based system which does not currently give SANDAG the ability to directly run reports in the manner required by grantors. SANDAG report preparers print out project expenditure information from IFAS and manually input information into spreadsheets where funding source information is aggregated and reported as needed. Users of the financial system are not educated on how to automate information transfer from IFAS into spreadsheet reports for normalization into reports. These spreadsheets are not controlled in a manner that is appropriate for the level of reliance which they currently hold in reporting for SANDAG. Spreadsheet use is not standardized and only quarterly reports are saved in the share drive, monthly reports are kept on the report preparer's computer terminal.

Additionally, various state and federal grantors have online reporting systems which SANDAG personnel must use to report on grants as required by individual grantors. When interviewed, management was not able to ensure access lists to these reporting systems are updated as needed to reflect the current user environment or that these lists are reviewed periodically. External system access lists, which do not reflect the current users authorized exposes SANDAG to use by past employees who may still have access.

Finding III: Findings & Recommendations are not Tracked

There are currently no written standards or a formal process for handling and tracking audit or review findings and recommendations made to SANDAG from outside entities.

Currently findings, observations and recommendations from outside audits or reviews are not tracked in an orderly manner. When findings, observations or recommendations occur they may

be put into a Problem Tracking Report and closed when responded to by the SANDAG Board. When SANDAG findings and recommendations for the past three years were requested, the Finance Director cited SANDAG had no findings save one which was resolved. After conducting research, the auditor discovered findings from reviews and audits from the external auditor, the California Department of Transportation and the California Legislative's Analyst Office. When prompted, the Finance Director provided documentation for several of the findings, but all the discovered findings were still in process of resolution. The Management Representation Letter to the outside auditor is inaccurate as it states there is a process for tracking findings and recommendations. See Appendix II for the Summary of Pending Findings, Observations & Recommendations.

Finding IV: Control Over Check Receipts

Duties involved in receiving, processing, and depositing checks are not adequately segregated to ensure checks are properly safeguarded. A sole SANDAG Mail Clerk handles all the mail for SANDAG including incoming mail receipts. Mail is distributed across four floors which SANDAG occupies. When processing mail, the mail clerk attempts to not open letters which contain checks but is not always successful. If the Mail Clerk is absent for one day the mail is picked up by another SANDAG employee. Unendorsed checks may be carried until distributed to the appropriate finance personnel, usually the Accounts Receivable (AR) Clerk.

The AR Clerk receives these checks and is responsible for opening mailed checks. If the AR Clerk is absent, unendorsed checks can be left in the AR Clerks cubicle unattended. After coding checks to their appropriate account, checks are given back to the mail clerk. The mail clerk then prepares and makes the deposit. Deposits stay at the AR Clerks desk until deposited. However, the deposit will not be run if the AR Clerk is absent unless other arrangements are made. If aggregated receipts are less than \$50,000 then they may be held on to until receipts are over that amount. The current process may lead to a loss of accountability of receipts, especially those lonesome receipts⁶ which are not expected by SANDAG.

REPORT DISTRIBUTION

This report is intended solely for the information of the San Diego County Grand Jury. Further distribution of this report is at the discretion of the Grand Jury.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the San Diego Association of Governments' officers and staff throughout this audit.

AUDIT TEAM

Franco Lopez, Auditor II

⁶ Lonesome receipts are funds received which were not expected by SANDAG, e.i., donations and mass legal settlements.

Appendix I

Comparisons with Similar Organizations:

At the request of the Grand Jury, OAAS created the following comparison of MPOs with a similar transportation tax as SANDAG's TransNet program. MPOs chosen for comparison against SANDAG were: San Bernardino Association of Governments (SANBAG), Riverside County Transportation Commission (RCTC) and Orange County Transportation Authority (OCTA). It should be noted these commissions are primarily concerned with regional transportation and do not have the additional overall responsibilities which SANDAG has in the areas of housing, economics, environment, and public safety. Table I shows the MPO Similarity Matrix.

Table 1. MPO Transportation Tax Similarity Matrix

Entity	SANDAG	RCTC	OCTA	SANBAG
Transportation Sales Tax Program	TransNet	Measure A	Measure M	Measure I
Voter Approved	Yes	Yes	Yes	Yes
Effective Date	Nov-87	Nov-88	Apr-91	Nov-89
Sales Tax Limit	1/2%	1/2%	1/2%	1/2%
Length	20 yrs	20 yrs	20 yrs	20 yrs
Tax Extended	Yes	Yes	Yes	Yes
Bonding Authority	Yes	Yes-Limited	Yes	Yes-Limited
Admin Spending Limit	1%	1%	1%	1%
Annual Appropriations Limit	No	Yes	Yes	Yes
Citizen Oversight Committee	Yes	No	Yes	No
Yearly Audit Required	Yes	Yes	Yes	Yes
Appointed Board of Governors	Yes	Yes	Yes	Yes
Transportation Plan Based	Yes	Yes	Yes	Yes
Equity in Distribution Provision ⁷	No	Yes	No	Yes
– Freeway Projects	33%	-	43%	-
– Regional Street & Road Projects	N/A	-	11%	-
– Local Street & Road Projects	33%	-	21%	-
– Transit Projects	33%	-	25%	-

The Transportation Sales Tax programs of all the MPOs in Table I were approved for extension by their respective voters. All MPOs reviewed use their transportation sales tax as programmed in their Federal and State mandated transportation improvement plan.

The primary area where these MPOs differ is in the manner in which transportation sales tax proceeds are distributed. Only RCTC and SANBAG have requirements in their sales tax ordinances which require they return funds to pre-designated regions proportionate to funds generated in those regions. As such, they adopt improvement plans which address the unique needs of each of these regions. OCTA and SANDAG do not have a requirement in their respective ordinances to return funds to pre-designated regions. Rather, OCTA and SANDAG prioritize programs for implementing the region's overall strategy for improving the transportation system.

⁷ RCTC & SANBAG have certain distribution requirements which require proceeds to be returned based on population and jurisdiction where tax was collected.

Trend Analysis:

At the request of the Grand Jury, OAAS compiled the following trend analysis of SANDAG's net assets and activities for the past three audited fiscal years. Table 2 shows the Net Assets Trend of SANDAG. Table 3 shows the Activities Trend of SANDAG.

Table 2. Net Assets Trend Analysis

	Net Assets Trend				
	SANDAG Government & Business Activities				
	2007	% Change	2006	% Change	2005
Current and other assets	168,160,780	(29.21)%	237,533,552	(10.50)%	265,399,503
Capital assets	218,687,940	66.87 %	131,050,654	36.93 %	95,703,822
Total assets	386,848,720	4.96 %	368,584,206	2.07 %	361,103,325
Current liabilities	166,808,732	(0.66)%	167,920,549	(15.23)%	198,080,075
Restricted liabilities	28,328,861	-	-	-	34,528,258
Noncurrent liabilities	0	(100.00)%	57,765,000	(62.27)%	153,115,000
Total liabilities	195,137,593	(24.66)%	259,002,888	(32.85)%	385,723,333
Net Assets:	0		0		0
Invested in capital assets	218,687,940	66.87 %	131,050,654	36.93 %	95,703,822
Restricted for:	0	-	-	-	0
Capital project retentions	0	-	-	-	139,874
Unrestricted	(26,976,813)	(23.56)%	(21,833,118)	74.59 %	(85,935,446)
Total net assets	191,711,127	74.95 %	109,581,318	1005.96 %	9,908,250

Table 3. Activities Trend Analysis

	Activities Trend				
	SANDAG Government & Business Activities				
	2007	% Change	2006	% Change	2005
Revenues:					
Program Revenues:					
Charges for services	2,534,800	(2.76)%	2,606,870	(17.19)%	3,148,023
Operating grants and contributions	64,902,496	(17.35)%	78,524,643	(0.70)%	79,079,840
Capital grants and contributions	35,697,195	16.33 %	30,687,025	(39.03)%	50,334,267
General Revenues:					
Sales taxes	248,467,503	1.79 %	244,103,489	6.33 %	229,576,284
Local Transportation Development Act funds	4,521,845	(31.36)%	6,587,559	(2.59)%	6,762,493
Investment income	5,916,150	(5.88)%	6,285,509	77.51 %	3,540,867
Indirect cost recovery	22,625,351	9.65 %	20,633,960	9.69 %	18,811,159
Land sales	0	(100.00)%	5,000	(99.84)%	3,185,802
Rental revenue	405,794	(31.14)%	589,275	(23.53)%	770,604
Other revenues	638,289	(78.30)%	2,941,994	96.03 %	1,500,811
Total revenues	385,709,423	(1.85)%	392,965,324	(0.94)%	396,710,150
Expenses:					
General government	26,852,026	10.57 %	24,285,698	8.27 %	22,431,027
Program activities	227,075,674	2.69 %	221,134,020	18.70 %	186,302,964
Interest on long-term debt	9,051,666	(28.85)%	12,722,427	(21.23)%	16,151,787
Total expenses	262,979,366	1.87 %	258,142,145	14.79 %	224,885,778
Chgs in net assets before capital contributions and transfers	122,730,057	(8.97)%	134,823,179	(21.53)%	171,824,372
Capital contributions	(40,600,248)	(15.51)%	(35,150,111)	42.81 %	(61,462,944)
Transfers	0		0		0
Change in net assets	82,129,809	(17.60)%	99,673,068	(9.68)%	110,361,428
Net assets (deficits), beginning of year	109,581,318	1005.96 %	9,908,250	109.86 %	(100,453,178)
Net assets (deficits), end of year	191,711,127	74.95 %	109,581,318	1005.96 %	9,908,250

The majority of SANDAG's net assets are primarily construction-in-progress (CIP). This CIP is primarily due from the revenue bonds of the TransNet Early Action Program which is secured with future TransNet tax proceeds. As such, the net assets deficit trend is primarily due to the sales tax revenue bonds of the Commission.

Appendix II

SUMMARY OF PENDING FINDINGS, OBSERVATIONS & RECOMMENDATIONS

At the request of the Grand Jury, OAAS compiled the following listing of previous audits and their pending observations and recommendations for the past three fiscal years. These findings and observations are from reviews and audits from the external auditor, the California Department of Transportation and the California Legislative's Analyst Office.

Automated Regional Justice Information System (ARJIS) finding:

ARJIS is a Joint Powers Agreement which provides the regional criminal justice enterprise information system utilized by more than 50 local agencies in the San Diego region. SANDAG assumed control of ARJIS but the City of San Diego continued to perform financial accounting and reporting up until July 1, 2006. The City of San Diego had not yet issued the ARJIS audited financial statements, at the time of the audit, and as a result the ARJIS financial information presented in the SANDAG financial statements was presented as unaudited. The recommendation made was that SANDAG closely monitor the process to ensure ARJIS financials are reported timely and accurately. This recommendation was implemented as SANDAG took ARJIS accounting and reporting responsibilities from the City of San Diego on July 1, 2006.

Department of Transportation (DOT) Unresolved Prior Audit Findings:

The California Department of Transportation Audits and Investigations Division audited the SANDAG Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget Circular A-87 and the Department of Transportation's Local Programs Procedures. While there were no findings in the audit, the report outlined that in prior audit reports a finding related to the reimbursement of Information Technology costs in the amounts of \$347,388 for FYE 6/30/02, \$344,399 for FYE 6/30/03, \$412,527 for FYE 6/30/04, and \$396,320 for FYE 6/30/05, as a result of the IT costs not being included in the indirect rate approved by the DOT.

The recommendation was that SANDAG reimburse the DOT for \$1,500,634 of unallowed IT costs, or resubmit to the Department revised final invoices, detailing additional unbilled costs with the necessary supporting documentation. While SANDAG agreed with the finding, it did not agree with the recommendation, and instead has been working with the DOT's District 11 to resolve this finding. The District allowed SANDAG to invoice the DOT for additional allowable direct costs that were not previously included in the invoices submitted. Therefore, the additional costs to be billed by SANDAG would be off set by unallowed IT costs. At the date of the DOT report (11/27/07) it was found that SANDAG has not submitted revised final invoices to the Department for each of the affected fiscal years, as such, this issue is still in process of resolution.

TransNet Compliance with FY2007 findings:

Caporicci & Larson, SANDAG external auditors, had findings during the TransNet FY2007 compliance audit on sixteen TransNet fund recipients related to having TransNet funds on hand that exceeded the 30 percent funding on hand limit outlined in

SANDAG Board Policy 31.⁸ An agency which maintains a balance of more than 30 percent of its annual TransNet apportionment (after debt service payments) must use the remaining balance to fund projects. In these cases, SANDAG will need to defer payment until the unused balances fall below the 30 percent threshold.

The SANDAG Finance Department is actively managing the funding for these TransNet fund recipients to ensure their TransNet funds on hand do not exceed the 30 percent limit outlined in SANDAG Board Policy 31.

The external auditor also noted that the City of Lemon Grove posted several adjustments to their TransNet fund after the FY2006 audit was completed resulting in a restatement of FY2006 numbers.

Legislative Analyst Office (LAO) Report findings:

The LAO report is a status report to inform the California Legislature concerning the progress of implementation for California Senate Bill 1703. The Legislature directed the LAO to prepare a report evaluating the San Diego regional governance structure and SANDAG's effectiveness in a variety of areas including land use, transportation, affordable housing, and the environment. The findings of the LAO dealt primarily with operational areas within SANDAG and not specifically with grant or TransNet administration. For a listing of the findings see Appendix III. While not addressing all the findings, in response to the LAO report SANDAG has done the following:

- Developed a Smart Growth Concept Map which identifies areas throughout the region that would link smart growth land uses and transportation infrastructure.
- Developed a Smart Growth Incentive Program which provides grant funding to local jurisdictions that implement smart growth land uses and have prioritized discretionary transportation funding to agencies that provide a greater share of their regional housing needs.
- SANDAG has made changes to its governance structure; two San Diego County representatives - one representing the incorporated areas and another representing the unincorporated areas of the county - sit on the SANDAG Board of Directors.

⁸ The 16 recipients named in the finding are Carlsbad, Chula Vista, El Cajon, Encinitas, Escondido, Imperial Beach, La Mesa, MTS, National City, Oceanside, Poway, San Diego, San Marcos, County of San Diego, Solana Beach and Vista.

Appendix III

LAO REPORT FINDINGS

The following is an outline of findings found in the LAO's report *SANDAG: An Assessment of Its Role in the San Diego Region*:

Governance

- SANDAG Plays a More Prominent Role Than Most Other Councils of Governments...
- ...But SANDAG's Authority to Address Most Regional Issues Is Limited
- SANDAG's Actions Require Broad Consensus
- Little Ability to Hold Members Accountable for Regional Objectives

Land Use

- Land Use Decisions Will Determine Region's Ability to Accommodate Growth
- SANDAG Lacks Any Authority to Regulate Land Development
- Economic Factors Influence Land Developments
- SANDAG Encourages Multifamily Housing, But Few Follow
- Some Local Agency Plans Emphasize Retail and Low-Density Housing
- Many Factors Counter SANDAG's Effectiveness In Influencing Land Use

Transportation

- SANDAG Is the Primary Transportation Entity In the Region
- SANDAG's Decisions Often Reflect Regional Concerns
- Regional Decision Making Faces Constraints
- SANDAG's Influence on Transportation Demand Is Limited
- Consolidation Might Improve Coordination of Transit Services
- Consolidation Under SANDAG Needs Clarification

Housing and The Environment

- SANDAG Limited in Its Efforts to Promote Housing
- Region's Housing Problems Not Likely to Improve Soon

Air Quality

- Governance Responsibilities Well Defined
- Limits of a Single-Function Entity
- SANDAG's Air Quality Role Limited

Water Quality

- Reasonable Allocation of Governance Roles
- Constraints on Achieving Water Quality Improvement
- SANDAG Has Virtually No Role in Water Quality

Natural Habitat Conservation

- New Conservation Program Still in Infancy
- SANDAG Has Opportunity to Assist in Habitat Plan Implementation